

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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R 061852Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8807

INFO AMEMBASSY OTTAWA

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ENRG UK

SUBJECT: NORTH SEA OIL: BREAKTHROUGHS ON FINANCING
ARRANGEMENTS

REF: 75 LONDON A-1027

1. WITHIN PAST WEEK TWO FINANCING ARRANGEMENTS HAVE BEEN ANNOUNCED WHICH ARE UNIQUE IN HISTORY OF NORTH SEA PETROLEUM DEVELOPMENT. MOST RECENT AND IMPORTANT IS 315 MILLION EUROS DOLLAR PACKAGE "COLLATERALIZING" PIPER FIELD PRODUCTION FOR BENEFIT OF CLAYMORE FIELD FINANCING BY OCCIDENTAL PETROLEUM GROUP AND THOMSON SCOTTISH ASSOCIATES. EARLIER, 76 MILLION POUND ISSUE ON LONDON CAPITAL MARKET COMBINED LOAN STOCK AND AN "OIL PRODUCTION STOCK" AS A MEANS OF TESTING PUBLIC'S WILLINGNESS TO SUPPORT NINIAN FIELD DEVELOPMENT COSTS OF TWO SMALLER CONSORTIUM MEMBERS. LONDON AND SCOTTISH MARINE OIL (LASMO)

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AND SCOTTISH CANADIAN OIL AND TRANSPORTATION (SCOT).

THESE "STOCK" ISSUES ARE FORMS OF DEBT FINANCING. THE FULL PROSPECTUS, COMPLETE DETAILS, AND SUBSCRIPTION APPLICATIONS WERE PUBLISHED IN THE FINANCIAL TIMES AND LONDON TIMES OF FEBRUARY 2, WHICH WE ASSUME ARE AVAILABLE TO ADDRESSEES. ISSUES EXPECTED TO HAVE WIDE APPEAL.

2. CLAYMORE FINANCING INVOLVES \$175 MILLION FOR OCCIDENTAL OF SCOTLAND AND \$140 MILLION FOR THOMSON \$100 MILLION LIMITED RECOURSE CREDIT TO THOMSON NORTH SEA, \$40 M. FULL RECOURSE CREDIT TO THOMSON NORTH SEA FINANCE) WHICH RESPECTIVELY OWN 36.5 AND 20 PERCENT OF CONSORTIUM DEVELOPING PIPER AND CLAYMORE FIELDS. INTERNATIONAL ENERGY BANK (IEB) WHICH TOGETHER WITH ASSOCIATED REPUBLIC NATIONAL BANK OF DALLAS (RNBD) IS MANAGING \$275 MILLION OF LOANS MADE, STATED THAT CREDIT FACILITY IS REPAYABLE OUT OF PROCEEDS OF PETROLEUM SALES FROM CLAYMORE FIELD BUT MAY BE SUPPLEMENTED AS NECESSARY BY PIPER FIELD PROCEEDS AFTER BANKS PROVIDING PIPER FINANCING--INCLUDING IEB AND RNBD--ARE REPAYED. LOANS ARE REPAYABLE NOT LATER THAN DEC. 31, 1982. THOMSON NORTH SEA FINANCE FULL RECOURSE LOAN OF \$40 MILLION REPAYABLE BY 1983 IS FROM SYNDICATE MANAGED BY ROYAL BANK OF CANADA. SECSTATE FOR ENERGY BENN HAS APPROVED ARRANGEMENT FOR LOANS "WITH PARTICULAR REGARD TO THE PROVISION OF SECURITY FOR THE BANKS."

3. IN VIEW OF RECENT DEGOLYER MACNAUGHTON ESTIMATE OF CLAYMORE RESERVES AT 356 MILLION BARRELS (A NEWLY PUBLISHED FIGURE) AND PIPER RESERVES OF 642 MILLION BARRELS, IT IS FORECAST THAT EVEN THOMSON SHOULD BE ABLE TO GENERATE ENOUGH REVENUE FROM NORTH SEA TO PAY OFF ALL BORROWING BY END OF 1978.

4. OTHER FINANCING ARRANGEMENT OF LASMO AND SCOT ENVISAGES ISSUES OF 14 PERCENT UNSECURED LOAN STOCK, DATED 1981-83, AND PREFERENTIAL TREATMENT IN PURCHASE OF UP TO 10 UNITS OF OIL PRODUCTION STOCK (OPS) FOR EACH 100 POUNDS OF LOAN STOCK HELD. OPS GIVES HOLDERS RIGHT TO RECEIVE PAYMENTS RELATED TO VALUE OF OIL FIELD PRODUCTION; PAYMENTS BEING REGARDED AS DISTRIBUTIONS AND LIMITED OFFICIAL USE

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ATTRACTIVE TO INSTITUTIONAL INVESTORS AS "FRANKED"

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INCOME, I.E. CARRYING TAX BENEFITS.

5. COMMENT: AGREEMENTS TO "COLLATERALIZE" NORTH SEA DEVELOPMENT, A PRACTICE LONG SINCE EMPLOYED IN UNITED STATES BY SMALLER INDEPENDENT OIL COMPANIES, COULD BE OF INCREASING IMPORTANCE TO COMPANIES OR CONSORTIA WITH TWO OR MORE FIELDS AT VARYING STAGES OF DEVELOPMENT OR WITH VARYING DEGREES OF RISK ATTACHED. IT IS TRUE THE PIPER-CLAYMORE SITUATION IS UNIQUE IN SOME WAYS. PIPER SHOULD BE AN EXCEPTIONALLY PROFITABLE FIELD, PHYSICAL DEVELOPMENT OF THE TWO FIELDS IS CLOSELY LINKED (BY PIPE-LINE TO SHETLANDS) AND PIPER CAN BE EXPECTED TO CARRY CLAYMORE FINALLY IF NECESSARY WITHOUT MUCH DIFFICULTY. BUT NOW THE GROUND HAS BEEN BROKEN, OTHER OIL COMPANIES AND BANKS ARE APT TO FOLLOW SUIT WITH COLLATERALIZED DEVELOPMENT LOANS EVEN IN INSTANCES WHERE LINKAGE IS LESS

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OBVIOUS.

6. PERHAPS MORE LIKELY IS INCREASING RESORT TO "PRODUCTION PAYMENT" SCHEMES--APPLICABLE TO AN INDIVIDUAL FIELD--SIMILAR TO THOSE USED IN THE UNITED STATES (AND BP FORTIES AND PIPER FIELDS) NOW THAT ACTUAL PRODUCTION PHASE IS APPROACHING IN A NUMBER OF NORTH SEA FIELDS. SKYROCKETING COST ESCALATION IS COMING UNDER CONTROL AND TECHNOLOGICAL DIFFICULTIES HAVE TO SOME EXTENT BEEN OVERCOME. IN LATTER REGARD, TROUBLE FREE OPERATION OF BP FORTIES FIELD SINCE NOVEMBER 1975 APPEARS TO HAVE HAD SALUTARY EFFECT ON LENDING INSTITUTION CONFIDENCE. AND PIPER FIELD FINANCING IN LATE 1974 OVERCAME LEGAL OBSTACLE OF OIL RESERVES BELONGING TO THE CROWN UNTIL ACTUAL PRODUCTION AT WELLHEAD BY PROVIDING FOR LENDING INSTITUTIONS "TAKING A CHARGE" ON LICENSE ITSELF INSTEAD OF ON OIL IN GROUND.

7. PUBLIC OFFERING APPROACH OF LASMO-SCOT TYPE PROBABLY WILL BE LIMITED IN APPLICATION TO SMALLER, LESS CREDIT-WORTHY COMPANIES AND OIL FIELD PROJECTS.

8. ONE SIGNIFICANT ASPECT OF RECENT FINANCING IS THAT LENDING INSTITUTIONS AND INSTITUTIONAL INVESTORS APPEAR TO HAVE OVERCOME MANY MAJOR CONCERNS ABOUT EFFECT HMG MAJORITY RTATE PARTICIPATION WILL HAVE ON SECURITY OF THEIR OUTSTANDING AND PROSPECTIVE NORTH SEA FINANCINGS.

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